

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 351 - HB 509

February 26, 2017

SUMMARY OF BILL: Extends, from January 1, 2011, to January 1, 2014, the deadline by which an application for a franchise and excise (F&E) tax credit for purchases of industrial machinery must have been received and approved by the Commissioners of the Department of Revenue (DOR) and Department of Economic and Community Development (ECD) for a qualifying taxpayer to be exempt from the 15-year carry forward limitation.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – \$1,500,000/FY27-28

Exceeds \$1,500,000/FY28-29 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-2009(3)(C)(i), any unused F&E tax credit may be carried forward in any tax period until the credit is taken; however, the credit may not be carried forward for more than 15 years.
- Pursuant to Tenn. Code Ann. § 67-4-2009(3)(C)(ii), § 67-4-2009(3)(C)(iii), and § 67-4-2009(3)(I)(i), a taxpayer that makes a capital investment in excess of \$1,000,000,000 is qualified for a credit equal to 10 percent of the purchase price of industrial machinery located in this state if purchased in the process of making the required capital investment, and such credit can be carried forward for more than 15 years if the taxpayer's application is received and approved by the Commissioners of DOR and ECD on or before January 1, 2011.
- Any credit approved immediately after that deadline would be available for use over the following 15 years, or between FY11-12 and FY25-26. Therefore, the first year that could be impacted by extending the application and approval deadline to January 1, 2014, would be FY26-27.
- Since this bill involves business plans that have already been approved, DOR and ECD know how many taxpayers the bill will affect. For these taxpayers, the first tax credits that are affected by this bill were approved in 2012. Therefore, the first year impacted by this bill will be FY27-28.
- The taxpayer's most recent complete tax year is used as an estimate of the taxpayer's future liability, as predicting the taxpayer's liability in FY27-28 is extremely difficult.

- The decrease in F&E tax collections in FY27-28 is estimated to be approximately \$1,500,000. This decrease is expected to grow over the following few years, up to approximately \$6,500,000, when the impact on state revenue will start to diminish as these tax credits begin to run out. For the purposes of this fiscal analysis, it is assumed that the decrease in F&E tax collections in FY28-29 and subsequent years will exceed \$1,500,000.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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